WIB
WINDWARD ISLANDS BANK

# Combined Financial Highlights

## Combined balance sheet of The Windward Islands Bank Ltd. and The Windward Islands Bank International N.V. as at December 31, 2018

| *(All amounts are expressed in thousands of Antillean Guilders)* | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | 104,053 | 214,874 |
| Due from affiliates | 698,721 | 750,205 |
| Investment securities | 244,094 | 31,498 |
| Loans and advances to customers | 543,386 | 533,618 |
| Bank premises and equipment | 31,227 | 28,831 |
| Deferred tax asset | 634 | 506 |
| Other assets | 9,640 | 5,539 |
| **TOTAL ASSETS** | **1,631,755** | **1,565,071** |
| **LIABILITIES AND EQUITY** | | |
| **Liabilities** | | |
| Customers' deposits | 1,340,738 | 1,289,141 |
| Due to other banks | 2,940 | 2,661 |
| Due to affiliates | 134 | 255 |
| Profit tax payable | 6,468 | 1,256 |
| Deferred tax liability | 8,123 | 9,786 |
| Provisions | 13,873 | 9,817 |
| Other liabilities | 14,488 | 20,011 |
| | **1,386,764** | **1,332,927** |
| **Equity** | | |
| Issued capital | 158,870 | 158,870 |
| Other reserves | 24,679 | 24,679 |
| Retained earnings | 61,442 | 48,595 |
| | **244,991** | **232,144** |
| **TOTAL LIABILITIES AND EQUITY** | **1,631,755** | **1,565,071** |

## Combined income statement of The Windward Islands Bank Ltd. and The Windward Islands Bank International N.V. as at December 31, 2018

| *(All amounts are expressed in thousands of Antillean Guilders)* | 2018 | 2017 |
|---|---|---|
| Interest income | 42,906 | 43,222 |
| Interest expense | 1,170 | 1,223 |
| **Net interest income** | **41,736** | **41,999** |
| Fee and commission income | 29,680 | 28,919 |
| Fee and commission expenses | 12,667 | 13,365 |
| **Net fee and commission income** | **17,013** | **15,554** |
| Income from foreign exchange transactions | 10,015 | 7,711 |
| Gains from sold assets | - | 858 |
| **Operating income** | **68,764** | **66,122** |
| Salaries and other employee expenses | 24,500 | 23,315 |
| Occupancy expenses | 6,115 | 5,884 |
| Credit loss expenses on financial assets | (726) | 15,865 |
| Other operating expenses | 16,424 | 16,052 |
| **Operating expenses** | **46,313** | **61,116** |
| **Net result before tax** | **22,451** | **5,006** |
| Profit tax | 5,242 | 601 |
| **NET RESULT AFTER TAX** | **17,209** | **4,405** |

# 2018 Management Report

### Our Country, Economy and Community

2018 was a year of rebuilding after the devastation of hurricane Irma in September 2017. The government moved swiftly to clear the debris and damage to the island's infrastructure in preparation for the vital tourism season. While many hotels, timeshare, condo and other guess properties took some time to be restored, the cruise industry rebounded robustly with as many as six cruise ships docking in the harbour on some days. This swift action on the part of the government and private businesses which provided tourism-related attractions and activities, went a long way in restoring the confidence of the cruise operators in the island as a cruise destination.

There was a significant uptick in construction activity on the island, as many home and business owners repaired their premises from insurance settlements and additional bank financing. However, this increase in construction activity and the positive effects on construction related sectors, were insufficient to offset the losses sustained from the damaged done to the stay over tourism and related sectors, such as wholesale and retail trade, transportation, restaurant and real estate renting. As a consequence, the island's real GDP fell by 4.7% as at the third quarter of fiscal year 2018. The slow recovery of the airport and the ripple effects this had were a major contributor to real GDP's decline. Also negatively impacting the recovery of the island was the slow pace at which the Reconstruction Funds administered by the World Bank were accessed by the government. This issue delayed the execution of public reconstruction projects and consequently weakened public investment. The higher unemployment situation driven by the closure of many businesses, resulted in a hard hit on government revenues and for the second consecutive year, the country's budget recorded a deficit of NAF 28 million by the end of the 3rd quarter of 2018.

### Our Bank

We continued the process we started a few years ago to increase efficiency, reduce costs and improve customer service, by centralizing certain activities and tasks either locally or with our parent company MCB. In this regard, we outsourced online banking administration, retail loan disbursements and the ATM cash replenishing. Locally, we centralized insurance administration into our Shared Services center. Initiatives to further improve customer service included the introduction of digital banking concepts in our branches, ensuring that all teller wickets were filled, the replacement of all ATMs throughout St. Maarten, Saba and St. Eustatius, the completion of an expanded St. Eustatius branch and the commencement of construction of a new Bush Road branch, having closed the Cole Bay branch in June 2018. The new Bush Road branch will feature a digital banking concept where the focus will be on the use of technology to conduct banking business and has been opened in the first quarter of 2019. We also introduced a new personal online banking platform, which introduced new functionalities for mobile banking and enhanced the customer experience. Last but not least, in recognition of the importance Compliance plays in everything we do, our File Remediation team was strengthened with new hires to complete a full file remediation exercise.

WIB also continued its commitment to give back to the communities in which it operates and during the year made donations and sponsorships totaling approximately NAF 200,000. This amounted to a 33% increase over what we gave in 2017. Our partnership with The St. Maarten Development Fund, whereby the Bank agreed to allow this organization to manage a portion of its social responsibility budget to support the many worthy causes within our communities, continued. Both entities along with the Dutch government came together to replace the roof on a foster home housing more than 20 young children. WIB also further sponsored the foster home's after school tuition program. We were also pleased with our continuation as one of the main sponsors of the annual Heineken Regatta and Golden Rock Regatta of St. Eustatius, which bring several tourists to St. Maarten & St. Eustatius yearly, thereby contributing to the economies of these islands.

### Financial Highlights

These combined highlights are for The Windward Islands Bank Ltd. and The Windward Islands Bank International N.V. (together "WIB").

2018 was a very strong year for our bank, having bounced back from the difficult year of 2017.

### Balance Sheet:

WIB's total assets increased by 4.3% moving from NAF 1.565 billion to NAF 1.632 billion, underscoring the strength of the Bank. Total net loans and advances were NAF 543 million as at fiscal year-end, decreasing by only 1.8% during the year, as many clients paid down their loans from insurance settlement funds. Our Investment Securities grew significantly by NAF 213 million or 675%, as we sought higher returns on excess liquidity.

The low interest rate environment remained in 2018. However, our deposit portfolio grew by NAF 52 million, which represented an increase of 4%. Total customer deposits now stand at NAF 1.341 billion. We continue to apply a policy to provide prudent interest compensation on time deposits and on saving accounts.

### Income Statement:

Total operating income of NAF 68.7 million increased by NAF 2.6 million or 4.0% when compared with the previous fiscal year 2017. Foreign exchange income grew by 29.9% while net commissions increased by 9.4% during the year. Total operating expenses were well maintained, notwithstanding the repairs carried out on the bank's premises and the hiring of additional staff for compliance. These expenses increased by 5.1%. Net income after taxes of NAF 17.2 million was up by 290.7% when compared to fiscal year 2017.

### The Future

The IMF is projecting positive growth in the island's economy in 2019, as the island continues its recovery with more hotels and other guess properties coming back online. There's still concern though about the gap between reconstruction needs (estimated at US $2.3 billion) and identified public and private financial resources (around US $1.2 billion), which is expected to slow the pace of full recovery.

Our Bank will continue in its effort to improve customer service, introduce digital banking and the various concepts in all of our branches, reduce costs and strengthen corporate governance and compliance, as we look forward to another historic performance.

Derek A. Downes
General Managing Director
April 3, 2019

# Explanatory notes to the combined financial highlights as at December 31 2018

## A. ACCOUNTING POLICIES

### 1. GENERAL

The principal accounting policies adopted in the preparation of the Combined Financial Highlights of The Windward Islands Bank Ltd. and The Windward Islands Bank International N.V. (together the 'Banks') are set out below. These explanatory notes are an extract of the detailed notes included in the financial statements of the Banks and are consistent in all material respects with those from which they have been derived.

### 2. BASIS OF PREPARATION

The financial statements, from which the Combined Financial Highlights have been derived, are prepared in accordance with International Financial Reporting Standards ('IFRS').

The figures presented in these highlights are stated in thousands of Antillean Guilders and are rounded to the nearest thousand.

The accounting policies used have been consistently applied by the Banks and are consistent, in all material respects, with those used in the previous year except for the impact of the first time adoption of IFRS 9 as set out below.

The statements have been prepared on the historical cost basis except for financial assets at fair value through profit or loss, and financial assets that are measured at amortized cost. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

### 3. CHANGES IN ACCOUNTING POLICIES

IFRS 9 replaces IAS 39 for annual periods on or after January 1, 2018. The Banks have not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of January 1, 2018. The first time adoption of IFRS 9 as per January 1, 2018 led to a remeasurement of the credit loss provision (increase) on loans and advances to customers of NAF 471, on investment securities of NAF 613, on deposits with banks of NAF 618, of contingent liabilities of NAF 2,396 and a decrease of retained earnings of NAF 3,351 (net of deferred tax). The measurement basis of financial assets and financial liabilities (amortized cost or fair value) within the scope of IFRS 9 has not been significantly impacted compared to the measurement basis applied under IAS 39.

### 4. BASIS OF CONSOLIDATION

The following entities have been combined as at December 31, 2018:
- The Windward Islands Bank Ltd.
- The Windward Islands Bank International N.V.

### 5. CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS

From 1 January 2018, the Banks have applied IFRS 9 to classify their financial assets (including its loans and advances to customers, investment securities and deposits with banks). Classification and subsequent measurement of the financial assets depend on:

(i) the Banks' business model for managing the asset; and
(ii) the cash flow characteristics of the asset.

Based on these factors, the Banks classify their debt instruments into one of the following two measurement categories:

**- Amortized cost:**
Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at Fair Value Through Profit or loss (FVTPL), are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance as further described below. Interest income from these financial assets is included in 'Interest income and similar income' using the effective interest rate method.

**- Fair value through profit or loss ("FVTPL"):**
Assets that do not meet the criteria for amortized cost are measured at fair value through profit or loss. These assets are unquoted equity securities that are not held for trading purposes. A gain or loss on such an equity investment is subsequently measured at fair value through profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

*Business model assessment*
The business model reflects how the Banks manage the assets in order to generate cash flows. That is, whether the Bank' objective is solely to collect the contractual cash flows from the assets. If this condition is not applicable (unlisted equity securities), then the financial assets are classified as part of 'other' business model and measured at FVTPL.

*SPPI*
Where the business model is to hold assets to collect contractual cash flows, the Banks assess whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Banks consider whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

*Derecognition of financial assets*
The Banks sometimes renegotiate or otherwise modify the contractual cash flows of loans to customers. When this happens, the Banks assess whether or not the new terms are substantially different to the original terms. If the terms are substantially different, the Banks derecognize the original financial asset and recognizes a 'new' asset and recalculates a new effective interest rate for the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired.

*Expected credit loss principles*
The adoption of IFRS 9 has fundamentally changed the Banks' impairment method by replacing IAS 39's incurred loss approach with a forward-looking Expected Credit Loss ("ECL") approach.

Based on the above process, the financials assets and loan commitments ('financial assets') are grouped into Stage 1, Stage 2 and Stage 3 as described below:
- Stage 1: When financial assets are first recognized, the Banks recognize an allowance based on twelve months' ECLs. Stage 1 financial assets also include facilities where the credit risk has improved and the financial asset has been reclassified from Stage 2.
- Stage 2: When a financial asset has shown a significant increase in credit risk since origination, the Banks record an allowance for these Lifetime ECLs. Stage 2 financial assets also include facilities, where the credit risk has improved and the financial asset has been reclassified from Stage 3.
- Stage 3: Financial assets considered credit-impaired and the Banks record an allowance for these Lifetime ECLs.

*Calculation of Expected credit losses*
The key elements of the ECL calculations are as follows:
- The Probability of Default (PD) is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period.
- The Exposure at Default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- The Loss Given Default (LGD) is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realization of any collateral. It is expressed as a percentage of the EAD.

In its ECL models, the Banks rely on a broad range of forward looking information as economic inputs such as GDP growth, Unemployment rates and the Consumer Price Index. The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

## B. SPECIFICATION OF ACCOUNTS

| *(All amounts are expressed in thousands of Antillean Guilders)* | 2018 | 2017 |
|---|---|---|
| **I ASSETS** | NAF | NAF |
| **Investment securities** | | |
| Debt securities at amortized cost | 243,834 | 31,273 |
| Accrued interest receivable on debt securities | 838 | 225 |
| Less: allowance for expected credit losses | (578) | - |
| **TOTAL INVESTMENT SECURITIES** | **244,094** | **31,498** |
| **Loans and advances to customers** | | |
| Retail customers | 212,609 | 254,553 |
| Corporate customers | 303,237 | 292,952 |
| Public sector | 41,636 | 1,302 |
| Other | 3,683 | 4,540 |
| **Gross loans and advances to customers** | **561,165** | **553,347** |
| Accrued interest receivable on loans and advances | 1,353 | 1,555 |
| Less: allowance for expected credit losses | (19,132) | (21,284) |
| **NET LOANS AND ADVANCES TO CUSTOMERS** | **543,386** | **533,618** |
| **II LIABILITIES** | | |
| **Customers' deposits** | | |
| Retail customers | 552,097 | 532,063 |
| Corporate customers | 525,714 | 519,911 |
| Other | 262,232 | 236,470 |
| | 1,340,043 | 1,288,444 |
| Accrued interest payable | 695 | 697 |
| **TOTAL CUSTOMERS' DEPOSITS** | **1,340,738** | **1,289,141** |

## Independent auditor's report on the audit of the combined financial highlights

### Opinion

The accompanying combined financial highlights, which comprise the combined balance sheet as at 31 December 2018 and combined income statement for the year then ended and related notes, are derived from the audited financial statements of The Windward Islands Bank Ltd. and The Windward Islands Bank International N.V. (together the "Banks") for the year ended 31 December 2018.

In our opinion, the accompanying combined financial highlights are consistent, in all material respects, with the audited financial statements of the Banks, in accordance with the Provisions for the Disclosure of Consolidated Financial Highlights of Domestic Banking Institutions, as set by the Central Bank of Curaçao and Sint Maarten ("CBCS").

### Combined financial highlights

The accompanying combined financial highlights do not contain all the disclosures required by International Financial Reporting Standards. Reading the accompanying combined financial highlights and our report thereon, therefore, is not a substitute for reading the audited financial statements of the Banks and our auditor's report thereon.

### The audited financial statements and our auditor's report thereon

We expressed unmodified audit opinions on the financial statements 2018 of the Banks in our auditor's report dated April 16, 2019.

### Other Information

Other information consists of the Management's Report. Management is responsible for the other information. Our opinions on the financial statements of the Banks do not cover the other information and we do not express any form of assurance conclusion thereon.
In connection with our audits on the financial statements of the Banks, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Banks or our knowledge obtained in the audit or otherwise appears to be materially misstated, as is required by article 121 sub 3 Book 2 of the Civil Code of Sint Maarten. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of management for the combined financial highlights

Management is responsible for the preparation of the accompanying combined financial highlights in accordance with the Provisions for the Disclosure of Consolidated Financial Highlights of Domestic Banking Institutions, as set by the CBCS.

### Auditor's responsibilities

Our responsibility is to express an opinion on whether the accompanying combined financial highlights are consistent, in all material respects, with the audited financial statements of the Banks based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

Curacao, April 25, 2019
for Ernst & Young Accountants

drs. R.J.W. van Nimwegen RA